

**MMS Industry Awards Program and Luncheon
Friday, April 14, 2000**

**DRAFT Remarks of Sylvia Baca
Assistant Secretary, Land and Minerals Management
U.S. Department of the Interior**

- I am very pleased to be here today to recognize some of the best corporate partners we have operating on Federal lands. I enjoyed participating in the first MMS industry awards ceremony here last year, and I'm glad to be able to participate again at this second annual event. Being able to recognize significant achievements is one of the best parts of this job.
- As a lessor, we seek to foster a cooperative relationship with our lessees. The companies receiving awards here today demonstrate how successful that cooperation can be.
- Those of you who operate on MMS leases offshore cooperate with us by conducting safe and clean exploration and development operations, so that we make oil and gas available to the Nation with a minimum of harm to people or to the environment. And those of you who are responsible for royalty reporting and payment cooperate by accurately reporting and paying the amounts due to the public and Native Americans for the minerals removed from Federal and Native American lands.
- We are recognizing four types of companies and individuals here today:
 - ◆ First, companies who are particularly good at reporting and paying their royalties in a timely and accurate manner. This does not mean they necessarily agree with us on how much royalties are due, but they follow all the proper

procedures in paying their royalties and they cooperate with our compliance activities, which minimizes administrative costs for the taxpayers;

- ◆ Second, companies that show outstanding performance in operating offshore leases safely and cleanly;
 - ◆ Third, corporate leaders who work with MMS and its employees to improve the way we do business; and
 - ◆ And fourth, corporate citizens, who demonstrate exemplary performance in their royalty reporting, offshore safety, and in community service activities.
- I'm glad to be here today to say "thank you" for all of your hard work to achieve such outstanding levels of performance in your offshore operations and royalty payments.
 - While we will spend most of our time here today recognizing the "winners" of these awards, I want to take a moment to recognize the achievements of the industry as a whole.
 - With all the attention lately on high oil prices and our dependence on OPEC, we shouldn't lose sight of the fact that matters would be much worse if the domestic industry did not continue its search for hydrocarbons on the outer continental shelf and onshore public lands. Whether in new frontiers in deep water or in newly discovered reservoirs in shallow water or onshore, the industry continues to prove it can develop the public's resources to the benefit of us all.
 - Federal offshore production now accounts for 25% of both our domestic natural gas and oil production. By 2001, we expect

these percentages to increase to 28% of our gas and 26% of our oil.

- And revenues from mineral leases on Federal lands continue to provide an important contribution to the Treasury. In 1999, mineral lessees on public lands provided about \$4.4 billion for use by the American public, plus another \$178 million for American Indians whose lands are leased. Of course oil prices were low for most of last year, so we expect higher revenues this year.
- As you know, the public does not always recognize these achievements. And public support can be critical when the industry seeks access to new areas. That is why the work you do is so important. If the public gets the message that the operations are safe and clean and that lessees are paying their royalties properly, then the industry is much more likely to obtain the public support that it needs.
- Obviously, doing a great job in these areas won't guarantee public support and access. But I can guarantee you that if you do a bad job, you will see the public make it even harder for you to get access to new areas.
- So I encourage you to continue to lead in these areas and to "raise the bar" for all your competitors. In the long run, you will provide benefits not only to your own companies but also to the public at large.
- The top industry performers not only provide energy and revenues to the Nation, but you also reduce the Government's administrative costs.

- ◆ Companies that report and pay their royalties correctly save MMS time and money. You reduce the number of people we have making corrections, and you make it possible to distribute the money faster to the ultimate recipients.
- ◆ Companies with safe and clean operations reduce our inspection costs.
- ◆ And companies that do public service and participate in MMS efforts to improve our business practices help us to better serve the public and make our operations more compatible with real-world needs of the industry. Just as an example, many of you have participated in the MMS Royalty Reengineering initiative, which we think will reduce MMS costs significantly, while reducing industry compliance costs and speeding up distribution of revenues as well.
- We know that in government we need to provide the best possible conditions for the industry to operate, while at the same time fulfilling our safety and environmental responsibilities and ensuring a fair financial return to the public. I would like to highlight a few of our initiatives over the past few years that are intended to ensure a competitive environment for energy companies operating on public lands and the OCS.
 - ◆ This year we are coming to the end of the 5-year mandatory period for Deep Water Royalty Relief for new leases in the Gulf of Mexico. This has been a very successful program, which has contributed to the increased pace of activity in deepwater witnessed since passage of Deep Water Royalty Relief Act. For example, there were 309 deep water exploration wells drilled in the four years

prior to the Act, but more than 743 such wells drilled in the four years thereafter. The royalty-free production volumes available to lessees will enable them to make the enormous financial investments necessary to find and produce oil and gas, and to construct the necessary infrastructure to support America's newest energy frontier.

- ◆ As we approach the end of the 5-year mandatory deep-water royalty relief period, we are looking at what level of relief may be appropriate for future lease sales. We are taking into account that technology has dramatically advanced from where it was five years ago, and that costs and prices also have changed. We plan to propose new regulations on royalty rate reduction and seek the views of stakeholders for this important program. We will continue our program for case-by-case royalty relief where justified on existing deep-water leases.
- ◆ BLM has reduced royalty rates for operators producing heavy crude oil to offset the high cost of production and has reduced royalty rates for stripper well properties as an economic incentive to keep these properties in production.
- ◆ BLM conducted a lease sale last year in the northeast portion of the National Petroleum Reserve, Alaska (NPRA). BLM already has approved the first eight applications for permits to drill, and industry is drilling the first wells as we speak. MMS continues an active leasing program in the Gulf of Mexico and in the Beaufort Sea. There are other areas of the country, however, where public support does not exist for offshore oil and gas activities.

- ◆ MMS has worked hard to implement the Royalty Simplification and Fairness Act. For example, we are working with industry and other interested parties to develop new regulations to reduce the accounting burden for marginal properties.
- ◆ MMS is increasing its use of royalty-in-kind programs to find ways to maintain or enhance revenues while reducing administrative costs—both for industry and the government. We are taking about 15 percent of our gas royalties in the Gulf of Mexico in kind today, as well as about half of our oil royalties in Wyoming. In addition, we are taking significant quantities of oil in kind in the Gulf of Mexico—both for sale to small refiners and for filling the Strategic Petroleum Reserve.
- ◆ Reengineering the MMS Royalty Management Program continues to be a top priority for us. The initiative will improve the timeliness and accuracy of royalty payments while saving the minerals industry millions in administrative costs. Again, we appreciate the contributions that many of you have made to this effort—it will help both your companies and the government work better at less cost.
- ◆ Department of the Interior employees have worked diligently to make these accomplishments possible. Many others from State and local governments, Indian tribes, other Federal agencies, industry, environmental groups and the general public contributed significantly to the process. While these accomplishments did not come easily, the results justify the time and hard work expended.

- We have witnessed rapid change in technology over the past ten years, and we anticipate this trend to continue—or even accelerate—as we move forward in the 21st Century. This new technology can make additional resources available for the Nation and can promote safety and environmental protection. It also can change the ways that we carry out our royalty accounting and audit activities. We will continue our work to adapt our regulations and our internal management structure to this changing technology so that we can maintain and improve our safety, environmental, and revenue collection record without creating unnecessary burdens.
- As we meet our objectives of energy production for the economy, we must never waiver in our commitment to a high level of environmental and safety performance for all Americans, including the people who work in the offshore industry. Safety must always be our first priority.
- Thank you once again for your continuing commitment to clean and safe energy production and for ensuring a fair return to the public. You really are the “best of the best,” and we sincerely appreciate your leadership in safety, environmental protection, and royalty accounting.